

Report
of the
Examination of
SECURA Supreme Insurance Company
Appleton, Wisconsin
As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

September 2, 2004

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Kevin McCarty
Chairman, Financial Condition (E)
Committee, NAIC
Director, Office of Insurance Regulation
State of Florida
200 East Gaines Street
Tallahassee, Florida 32399-0327

Commissioners:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

SECURA SUPREME INSURANCE COMPANY
Appleton, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of SECURA Supreme Insurance Company (the company or Supreme) was conducted in late 1999 and early 2000 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

SECURA Supreme Insurance Company was organized on November 30, 1995.

Supreme is a wholly owned subsidiary of SECURA Insurance Holdings, Inc. (Holdings), a Wisconsin-domiciled corporation organized under Chapter 180 of the Wisconsin Statutes. Holdings, in turn, is a wholly owned subsidiary of SECURA Insurance, A Mutual Company (SECURA).

Holdings was organized effective January 3, 1994, and capitalized with an initial cash investment from SECURA of \$10,000 for which SECURA received 1,000 shares of Holdings' common stock. On October 3, 1995, SECURA contributed \$4,000,000 cash to Holdings and received 4,000 shares of Holdings' common stock. Holdings, in turn, used this \$4,000,000 as the initial capitalization for Supreme. Holdings received 40,000 shares of Supreme's common stock for this \$4,000,000 investment. On December 18, 1996, SECURA made an \$8,000,000 capital contribution to Holdings and Holdings, in turn, made an \$8,000,000 contribution to Supreme. During 1999, management initiated application for licensure of Supreme in certain states other than Wisconsin, including states in which a licensee is required to have minimum capital stock of equal to or greater than \$1,000,000. In 1999, SECURA contributed \$1,800,000 to Holdings, and Holdings, in turn, used these funds to purchase \$1,800,000 of Supreme's common stock.

The company has a reinsurance pooling relationship with its parent, SECURA. The pooling agreement was established July 1, 1996; it was amended October 1, 1999, and again on January 1, 2002; each was not disapproved by this office. Under the pooling agreement the company cedes to SECURA 100% of the insurance and reinsurance issued by Supreme, and SECURA cedes and retrocedes to Supreme 10% of the net premium for the pool and net loss in the pooled business. Further discussion of the company's affiliated reinsurance pooling activity is provided in the section of this report captioned "Reinsurance."

In 2003, the company wrote direct premium in the following states:

Wisconsin	\$58,459,092	68.5%
Minnesota	11,431,161	13.4
Michigan	7,289,550	8.5
Missouri	3,688,312	4.3
Iowa	3,003,115	3.5
Indiana	1,422,114	1.7
Illinois	<u>463</u>	<u>0.1</u>
Total	<u>\$85,293,807</u>	<u>100.0%</u>

The company is licensed in Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri and Wisconsin.

The major products marketed by the company include commercial lines, personal lines including auto and homeowners, and farmowners insurance. The company markets insurance to individuals and business enterprises classified by the company as preferred risks and standard risks, and does not issue policies to substandard risks. In 1999 the SECURA group developed and began marketing a personal lines package policy providing homeowners, automobile and umbrella liability insurance coverages under one policy. The package product is marketed solely by Supreme, which commenced writing the package policy in early 2000. Supremes' personal lines package insurance is marketed to individuals who are classified by the company as preferred risks. The major products are marketed through approximately 4,500 independent agents. Included in the total agents are 1,885 licensed in Wisconsin.

The following table is a summary of the net insurance premiums written by the company in 2003. The growth of the company is discussed in the Financial Data section of this report.

(Amounts in thousands)

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	\$ 82	\$ 112	\$ 82	\$ 112
Allied lines	94	67	94	67
Farmowners multiple peril		1,666	0	1,666
Homeowners multiple peril	14,517	3,690	14,517	3,690
Commercial multiple peril	12,361	4,598	12,361	4,598
Inland marine	194	80	194	80
Earthquake	83	44	83	44
Worker's compensation	17,596	5,278	17,596	5,278
Other liability - occurrence	2,471	111	2,471	111
Other liability - claims made	65	13	65	13
Products liability - occurrence	908	411	908	411
Private passenger auto liability	15,134	3,391	15,134	3,391
Commercial auto liability	5,410	1,952	5,410	1,952
Auto physical damage	15,906	4,397	15,906	4,397
Fidelity	7	2	7	2
Burglary and theft	1	0	1	0
Boiler and machinery	<u>465</u>	<u>26</u>	<u>465</u>	<u>26</u>
Total All Lines	<u>\$85,294</u>	<u>\$25,838</u>	<u>\$85,294</u>	<u>\$25,838</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board meeting held on the date of the company's annual meeting. Supreme's board is identical to SECURA's board of directors. Although Supreme does not directly pay its board members any fees, members currently receive \$12,000 annually (based on 5 meetings, paid in 4 equal installments) for serving on these boards. The chairpersons of the Audit, Executive and Investment Committees are paid an additional retainer of \$1,000, payable in equal quarterly installments. With respect to committee meetings, non-employee directors receive \$500 per meeting for each committee meeting held on a date other than a day on which the board is meeting. Directors may be reimbursed up to \$500 per meeting for travel-related expenses to attend a board or committee meeting. The fees are paid by SECURA, and then are allocated 90% to SECURA and 10% to Supreme per the Professional Services Agreement.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
John A. Bykowski Appleton, Wisconsin	President, CEO and Chairman, SECURA Insurance, SECURA Supreme and SECURA Holdings	2006
Robert D. Bauman Appleton, Wisconsin	Senior VP, General Counsel and Corporate Secretary of SECURA Insurance, SECURA Supreme, and SECURA Holdings	2005
James R. Hayes Oshkosh, Wisconsin	President, J. Hayes Associates, LLC	2005
Wayne R. Micksch Green Bay, Wisconsin	President, Quality Insulators, Inc.	2007
Anne E. Ross Madison, Wisconsin	Attorney, Foley and Lardner	2007
M. Elinor Smith Neenah, Wisconsin	VP Development, QPS Companies, Inc.	2005
Jerome J. Smith Madison, Wisconsin	President and CEO, First Business Financial Services, Inc.	2006
David J. Thomas Sister Bay, Wisconsin	Owner and President, Thomas Pfeifer Insurance Agency, Inc.	2006
Ronald A. Weyers Gillett, Wisconsin	The Weyers Group	2007

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2003 Compensation
John A. Bykowski	President, CEO, Chairman	\$549,982
Robert D. Baumann	Secretary	237,591
Kathryn J. Sieman	Treasurer	206,230

A portion of the above salaries are allocated to Supreme as a part of the pooling reinsurance agreement and professional services agreement.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

David J. Thomas, Chair
John A. Bykowski
Jerome J. Smith
Ronald A. Weyers

Audit Committee

James R. Hayes, Chair
M. Elinor Smith
Wayne R. Micksch

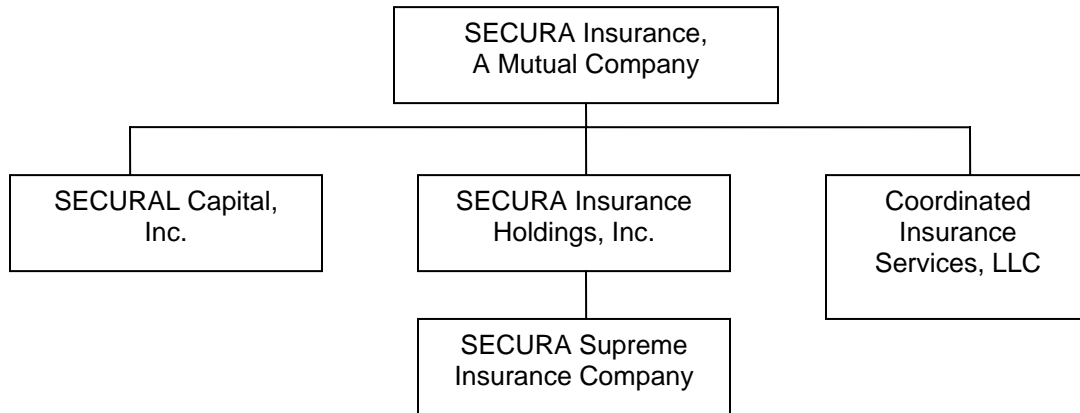
Investment Committee

Jerome J. Smith, Chair
Anne E. Ross
John A. Bykowski
Robert D. Bauman

IV. AFFILIATED COMPANIES

Supreme is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the affiliates follows the organizational chart. SECURA is the ultimate parent of a holding company system.

**Organizational Chart
As of December 31, 2003**



SECURA Insurance, A Mutual Company

SECURA was organized in 1900 as The Farmers Home Mutual Hail, Tornado and Cyclone Insurance Company, a town mutual insurance company. In 1932 the company converted its licensure authorization to that of a Wisconsin-domiciled mutual insurer, and changed its name to Home Mutual Insurance Company. In 1986 the company changed its name to the current one.

SECURA is the ultimate parent company in a holding company system. There was a change to the holding company for the period under examination. Coordinated Insurance Services, LLC (Services) was formed and is a limited liability company with SECURA as its sole owner. Services was formed to perform worker's compensation payroll audits for the company and possibly for other companies. As of December 31, 2003, SECURA reported net admitted assets of \$377,694,333, liabilities of \$249,675,702 and surplus of \$128,018,631. Operations in 2003 produced a net income of \$15,759,105. SECURA was examined simultaneously with Supreme, and is the subject of a separate examination report.

SECURA and Supreme are parties to a professional services agreement, reinsurance pooling agreement and a tax-sharing agreement, discussed in the Agreements with Affiliates section of this report.

SECURA Insurance Holdings, Inc

SECURA Insurance Holdings, Inc. (Holdings), is a Wisconsin-domiciled Chapter 180 corporation that was organized January 3, 1984. Wholly owned by SECURA, Holdings serves as the intermediate holding company parent of SECURA Supreme Insurance Company (Supreme). As of December 31, 2003, Holdings reported non-audited assets of \$16,045,136, \$0 in liabilities and net stockholder equity of \$16,045,136. Holdings did not conduct any business operations apart from the operations of its wholly owned subsidiary Supreme.

SECURAL Capital, Inc.

SECURAL Capital, Inc. (Capital), is a Wisconsin-domiciled Chapter 180 corporation that was organized May 29, 1987. Capital is an inactive shell. As of December 31, 2003, Capital reported non-audited assets of \$83,060, liabilities of \$2,334 and net stockholder equity of \$80,726. Net income from operations was \$7,684. Revenues are from short-term investments. See Subsequent Events section for more information about the plans for this affiliate.

Coordinated Insurance Services, LLC

Coordinated Insurance Services, LLC (CIS), is a Wisconsin-domiciled Chapter 183 limited liability corporation that was organized on April 24, 2000. CIS was formed to provide insurance-related support services to other insurance companies. The main initial objective of CIS was to manage the excess premium audit capacity of SECURA in order to control expenses and to provide quality premium audit services to client companies at a high level of customer service. CIS conducted actual operations for two years. CIS is now an inactive shell. As of December 31, 2003, CIS reported non-audited assets of \$20,000, liabilities of \$0 and net stockholders equity of \$20,000. Operations in 2003 reported \$0 in net income. See Subsequent Events section for more information about the plans for this affiliate

Agreements with Affiliates

Pooling Agreement

This agreement is described in the Reinsurance Section of this report.

Professional Services Agreement

The company has a Professional Services Agreement with SECURA. The agreement covers expenses not covered under the pooling agreement with SECURA. These services include actuary, accounting, financial reporting, legal services, investment management, financial audit and such other professional services as may be requested from time to time by Supreme. Services are to be billed on an actual cost basis. Payment is to be made within 30 days of receiving an appropriate accounting statement. The original term of the agreement was July 1, 1996, to December 31, 2000, and renews for five-year terms unless terminated by either party. The agreement may be terminated at anytime by either party giving 90 days' written notice.

Tax-Sharing Agreement

This agreement includes the company, SECURA and all other subsidiaries the company owns at least 80% of issued and outstanding stock. The agreement calls for each company to compute its tax as if filing a separate return except that the single \$40,000 exemption contained in IRC section 55 shall be allocated to SECURA. Payments are due in one installment on or before the fifteenth day of the third month following the close of the company's tax year.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of significant reinsurance contracts in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Supreme's reinsurance program consists of business cessions to various nonaffiliated insurers for excess of loss umbrella and catastrophe reinsurance coverages and affiliated assumption of pooled risks under a reinsurance pooling relationship with SECURA (which includes SECURA's assumption of nonaffiliated pool association risks). They also have a large amount of known case reserves ceded to the mandatory Michigan Catastrophic Claims Association. The only assumed business is from the affiliated pooling agreement with SECURA.

Affiliated Pooled Reinsurance

The company's affiliated reinsurance is transacted under a reinsurance pooling relationship with SECURA. An intercompany pooling agreement was established July 1, 1996, amended October 1, 1999, and amended again effective January 1, 2002; each was not disapproved by this office. Under the pooling agreement SECURA assumes 100% of the insurance and reinsurance issued by Supreme, then SECURA cedes and retrocedes to Supreme 10% of the premiums, commissions, and liability for net loss and loss adjustment expense in the pooled business.

Under the pooling agreement, Supreme assigns its rights to receive all gross written premiums to SECURA, and SECURA pays to Supreme 10% of the net premium for the pool. Net premium for the pool equals the collected gross net written premium, unearned premium reserves, plus premiums receivable, for the pooled business minus all cost and expenses of operations for the pooled business, including the administrative fee payable to SECURA, commissions, contingent commissions, cost of reinsurance, policyholder dividends and related liabilities.

Pursuant to the reinsurance pooling agreement, SECURA performs all administration of the pooled business, including product design and marketing, billing and collection, underwriting and claims adjudication, and regulatory filing and compliance.

For its services under the pool agreement, SECURA is entitled to retain, as an administration fee, 12.5% of the pooled collected gross net written premium, approximating Supreme's portion of SECURA's actual cost of services. These contracts cover the aggregate business of SECURA and Supreme.

Nonaffiliated Ceding Contracts

1. Type: Property Per Risk Excess of Loss

Reinsurer:	Motors Insurance Corporation	55%
	Platinum Underwriters Reinsurance	25%
	Hanover Ruckversicherungs Aktiegesellschaft	20%
- Scope: Property (except automobile physical damage)
- Retention: \$1,000,000 each risk from one loss occurrence
- Coverage: \$4,000,000 excess \$1,000,000 retention with a per occurrence cap of \$8,000,000 ultimate net loss all losses from one loss occurrence. If recovery on a risk from one loss occurrence under this contract and recovery from same loss occurrence under excess casualty reinsurance effective January 1, 2004, reinsurer also liable for 50% of retention this contract.
- Premium: 2.80% of company's net property premiums with a minimum premium of \$1,952,000
- Effective date: January 1, 2004
- Termination: January 1, 2005, applying to losses occurring during term of contract. At expiration company option for cutoff or runoff until earlier of expiration or next renewal of policies in force at expiration.

2. Type: Property Catastrophe Excess of Loss

Reinsurer:

<u>Reinsurer</u>	<u>Participation</u>			
	<u>1st X/S</u>	<u>2nd X/S</u>	<u>3rd X/S</u>	<u>4th X/S</u>
American Agricultural Insurance	0.00%	4.00%	4.00%	2.00%
Arch Reinsurance	5.00	5.00	5.00	5.00
AXA Re	5.00	5.00	5.00	5.00
Employers Mutual Casualty	1.50	1.50	1.50	1.00
GE Reinsurance Corp	25.00	7.50	7.50	6.50
Hanover Re (Bermuda) Ltd.	0.00	5.00	2.50	9.00
Mapfre Reinsurance	0.00	2.00	1.50	3.75
Pxre Reins Ltd. (Bermuda)	8.00	0.00	8.00	8.00
Platinum Underwriters Re	10.00	10.00	10.00	10.00
QBE Reinsurance	0.00	9.00	0.00	2.50
Sirus International (Publ)	0.00	0.00	0.00	1.50
Sirus International (Publ)(PRAM)	0.00	0.00	1.50	1.50
State Automobile Mutual	0.00	3.00	4.00	2.00
Transatlantic Reinsurance	0.00	11.00	8.25	7.50
XL Re Limited (Bermuda)	10.00	0.00	8.75	8.50
Lloyd's Markets*	12.50	23.50	22.50	20.00
Across the Board Facility*	18.00	9.50	6.00	2.25
Master Lineslip Facility*	5.00	4.00	4.00	4.00
	100.0%	100.0%	100.0%	100.0%

*Various reinsurers

Scope:

Property business, including but not limited to, earthquake, fire, allied lines, inland marine, automobile physical damage (excluding collision) and property sections of homeowners, farmowners, businessowners and commercial packages policies in force at inception of contract, or written or renewed during term of this contract.

Retention:

The company shall retain an amount equal to 2.5% participation of the Ultimate Net Loss each loss occurrence in each of the four layers of the contract. The layers of ultimate net loss each loss occurrence are the following:

First Excess	excess of \$ 5,000,000 up to \$12,000,000
Second Excess	excess of \$12,000,000 up to \$20,000,000
Third Excess	excess of \$20,000,000 up to \$30,000,000
Fourth Excess	excess of \$30,000,000 up to \$50,000,000

Coverage:

97.5% of the ultimate net loss each loss occurrence in each of the four layers of the contract. Reinsurers have the following limits of liability for all loss occurrences for the respective layers of the contract:

	<u>Per Occurrence</u>	<u>For All Occurrences</u>
First Layer	97.5% of \$ 7,000,000	97.5% of \$14,000,000
Second Layer	97.5% of \$ 8,000,000	97.5% of \$16,000,000
Third Layer	97.5% of \$10,000,000	97.5% of \$20,000,000
Fourth Layer	97.5% of \$20,000,000	97.5% of \$40,000,000

Reinsurer shall not be liable unless two or more risks in same loss occurrence.

Premium: Premium rates as a percentage of net subject premiums earned by the company

<u>1st Layer</u>	<u>2nd Layer</u>	<u>3rd Layer</u>	<u>4th Layer</u>
1.771%	0.476%	0.319%	0.394%

Annual minimum and deposit premiums:

	<u>Minimum Premium</u>	<u>Deposit Premium</u>
1 st Layer	\$1,474,200	\$1,842,750
2 nd Layer	396,240	495,300
3 rd Layer	265,200	331,500
4 th Layer	327,600	409,500

Effective date: January 1, 2004

Termination: January 1, 2005

3. Type: Property Facultative Excess of Loss

Reinsurer: American Re-Insurance Company

Scope: Commercial lines policies. Applies only to a risk entered and bound on the Auto Fac system within 30 days company is bound on risk. Territory is only property in Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri and Wisconsin, except Inland Marine where policies located. Company liable for all taxes on premiums reported to reinsurer.

Retention: Minimum net and treaty retention of \$5,000,000 each risk, each occurrence.

Coverage: \$15,000,000 excess \$5,000,000 each risk, each occurrence
\$ 7,500,000 excess \$5,000,000 each risk, each occurrence for risks located in Minneapolis, MN, St. Paul, MN, Chicago, IL, Detroit, MI, Kansas City, KS, Kansas City, MO, and St. Louis, MO.

Premium: Company shall pay reinsurer that portion of company's premium applicable to policies reinsured which corresponds to reinsurer's participation in such policies.

Effective date: November 1, 2002

Termination: Until cancelled by either party at any time with at least 90 days written notice.

4. Type: Umbrella Quota Share

Reinsurer: American Re-Insurance Company

Scope: Commercial, personal, and farm umbrella liability

Retention: 25% quota share of company's net loss for first \$1,000,000 for each loss occurrence. Company shall retain or reinsure 25% of

its Net Loss and Loss Adjustment Expenses, and 100% over \$10,000,000.

Coverage: 75% quota share participation in company's net loss for first \$1,000,000 for each loss occurrence plus 100% quota share for amounts in excess of \$1,000,000 up to \$10,000,000.

Premium: 75% of the written premium charged by the company for each umbrella liability policy covered by this agreement up to a limit of \$1,000,000. 100% of premium for umbrella liability policies from \$1,000,000 to \$10,000,000.

Commissions: 30% Ceding commission. Contingent commission of 35% on the net profits accruing to the reinsurer for the first \$1,000,000 of insurance limits.

Effective date: January 1, 2004

Termination: At any time by either party by providing 90 days' notice in writing.

5. Type: Clash Excess Casualty

Reinsurer	1st Xs	2nd Xs	3rd Xs
Arch Reinsurance	00.00%	25.00%	37.50%
Employers Mutual Casualty	2.50	2.50	2.50
GE Reinsurance Corp	36.25	10.00	0.00
Partner Reinsurance of U.S.	25.00	0.00	0.00
Platinum Underwriters Reins.	0.00	22.50	22.50
Hanover Ruckversicherungs	<u>36.25</u>	<u>40.00</u>	<u>37.50</u>
Total	100.00%	100.00%	100.00%

Scope: Casualty, including but not limited to third party bodily injury, personal injury or death liability, and third party damage liability, including any medical payments, automobile coverage, for uninsured or under insured motorists, benefits prescribed under any state automobile no fault laws and worker's compensation benefits for the following coverages:

1. Mobile homeowners section II only
2. Farmowners section II only
3. Homeowners section II only
4. Commercial package policy section II only
5. Buisnessowners section II only
6. Automobile liability
7. General liability
8. Worker's compensation (including employer's liability)

Retention:	Layer	Retention
	1 st Layer	\$ 1,000,000 per loss occurrence
	2 nd Layer	6,000,000 per loss occurrence
	3 rd Layer	12,000,000 per loss occurrence

Coverage:	Layer	Per Occurrence	All Occurrences
	1 st Layer	\$5,000,000	\$20,000,000
	2 nd Layer	6,000,000	12,000,000
	3 rd Layer	8,000,000	16,000,000

The maximum loss any one person for ultimate net loss for any worker's compensation loss is limited to \$6,000,000.

Premium:

Premium rates as percentage of net premiums earned:

Layer 1	Layer 2	Layer 3
1.338%	0.225%	0.169%

Annual and minimum premiums:

	<u>Minimum Premium</u>	<u>Deposit Premium</u>
Layer 1	\$1,424,000	\$1,780,000
Layer 2	240,000	300,000
Layer 3	180,000	225,000

Effective date: January 1, 2004

Termination: January 1, 2005

6. Type: All Lines Whole Account Aggregate Excess of Loss

Reinsurer: Hannover Reinsurance (Ireland) Ltd. 80%
E&S Reinsurance (Ireland) Ltd. 20%

Scope: Aggregate net losses incurred by the company during the term of this contract on an ultimate accident year (January 1, 2004, through December 31, 2004) basis for any and all business written or assumed by the company.

Retention: Excess of 66% of gross net earned premium income or \$169,000,000 of aggregate net losses, whichever is greater

Coverage: Aggregate net losses paid for business covered, subject to maximum aggregate limit equal to 6.9% of the gross net earned premium income or \$17,500,000 whichever is lesser, which is in excess of retention, whichever is greater, subject to a sub-limit of \$25,000,000 for all subject losses and expenses arising from losses assigned a catastrophe number by the Policy Claims Service or from any claims arising out of mold, contractors' completed operations property damage or terrorism, or assumed from a mandatory state pool.

Premium: Flat deposit premium of \$5,000,000, of which \$700,000 shall be paid the reinsurer in two equal semi-annual installments of \$350,000 each on January 1, 2004, and July 1, 2004, as expense charge, and the balance shall be credited to the funds withheld account as of January 1, 2004. The expense charge shall be fully earned as received except for cancellation due to adverse law or regulatory. Company shall pay via credit to the funds withheld account an additional premium equal to 50% ceded incurred aggregate net losses in excess of \$7,500,000.

Maintenance Fee: On each April 1, 2006, April 1, 2007, April 1, 2008, April 1, 2009 and April 1, 2010, the company shall pay 1.0% of the funds withheld account balance to the reinsurer.

Such maintenance fee shall not be less than zero and shall be payable in addition to the premium, as well as additional premium.

At the time of commutation the company is to receive the amount in the funds withheld account as a return premium.

Effective date: January 1, 2004

Termination: December 31, 2004

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

SECURA Supreme Insurance Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$33,942,994	\$	\$33,942,994
Cash	2,309,477		2,309,477
Short-term investments	511,764		511,764
Investment income due and accrued	322,930		322,930
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	909,470	103,955	805,515
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	6,343,758		6,343,758
Reinsurance:			
Amounts recoverable from reinsurers	33,775		33,775
Net deferred tax asset	<u>1,382,236</u>	<u>302,367</u>	<u>1,079,869</u>
Total Assets	<u>\$45,756,404</u>	<u>\$406,322</u>	<u>\$45,350,082</u>

SECURA Supreme Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Losses		\$10,049,883
Loss adjustment expenses		2,982,326
Commissions payable, contingent commissions, and other similar charges		1,058,362
Current federal and foreign income taxes		1,600,000
Unearned premiums		12,137,441
Advance premium		224,506
Dividends declared and unpaid:		
Policyholders		122,073
Ceded reinsurance premiums payable (net of ceding commissions)		606,299
Remittances and items not allocated		78,689
Payable to parent, subsidiaries, and affiliates		<u>456,573</u>
Total Liabilities		29,316,152
Common capital stock	\$ 1,840,000	
Gross paid in and contributed surplus	11,960,000	
Unassigned funds (surplus)	<u>2,233,929</u>	
Surplus as Regards Policyholders		<u>16,033,929</u>
Total Liabilities and Surplus		<u>\$45,350,081</u>

SECURA Supreme Insurance Company
Summary of Operations
For the Year 2003

Underwriting Income

Premiums earned	\$23,775,734
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Deductions:

Losses incurred	\$10,890,159	
Loss expenses incurred	2,385,016	
Other underwriting expenses incurred	<u>7,816,417</u>	
Total underwriting deductions		<u>21,091,592</u>
Net underwriting gain or (loss)		2,684,142

Investment Income

Net investment income earned	1,574,776	
Net realized capital gains or (losses)	<u>(7,230)</u>	
Net investment gain or (loss)		1,567,546

Other Income

Net (loss) from agents' or premium balances charged off	(121,926)	
Finance and service charges not included in premiums	<u>264,417</u>	
Total other income		<u>142,491</u>

Net income before dividends to policyholders and before federal and foreign income taxes	4,394,179
Dividends to policyholders	<u>279,938</u>

Net income after dividends to policyholders but before federal and foreign income taxes	4,114,241
Federal and foreign income taxes incurred	<u>1,553,695</u>

Net Income	<u>\$ 2,560,546</u>
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SECURA Supreme Insurance Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance		\$24,262,042
Net investment income		1,716,430
Miscellaneous income		<u>142,491</u>
Total		26,120,963
Benefit and loss related payments	\$ 9,624,757	
Commissions, expenses paid, and aggregate write-ins for deductions	9,372,404	
Dividends paid to policyholders	271,768	
Federal and foreign income taxes paid (recovered)	<u>853,695</u>	
Total deductions		<u>20,122,624</u>
Net cash from operations		5,998,339
Proceeds from investments sold, matured, or repaid:		
Bonds	5,420,947	
Net gain on cash and short-term investments	<u>6</u>	
Total investment proceeds	5,420,953	
Cost of investments acquired (long-term only):		
Bonds	<u>11,760,744</u>	
Net cash from investments		(6,339,791)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>1,438,552</u>
Reconciliation		
Net change in cash and short-term investments		1,097,100
Cash and short-term investments, December 31, 2002		<u>1,724,133</u>
Cash and short-term investments, December 31, 2003		<u><u>\$ 2,821,233</u></u>

SECURA Supreme Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets		\$45,350,082
Less liabilities		<u>29,316,152</u>
Adjusted surplus		16,033,929
Annual premium:		
Lines other than accident and health	\$25,558,500	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>5,111,700</u>
Compulsory surplus excess (or deficit)		<u>\$10,922,229</u>
Adjusted surplus (from above)		\$16,033,929
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>7,156,380</u>
Security surplus excess (or deficit)		<u>\$ 8,877,549</u>

SECURA Supreme Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000	1999
Surplus, beginning of year	\$13,288,708	\$11,793,084	\$10,795,463	\$10,582,409	\$ 9,419,391
Net income	2,560,546	1,235,086	(34,694)	267,539	(787,982)
Net unrealized capital gains or (losses)			3,385	(3,385)	
Change in net deferred income tax	469,272	117,923	168,924		
Change in non-admitted assets	(284,594)	142,615	(244,241)		
Cumulative effect of changes in accounting principles			1,104,247		
Capital changes:					
Paid in					1,800,000
Change in excess of statutory reserves over statement reserves				(51,100)	151,000
Surplus, end of year	<u>\$16,033,932</u>	<u>\$13,288,708</u>	<u>\$11,793,084</u>	<u>\$10,795,463</u>	<u>\$10,582,409</u>

SECURA Supreme Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

	Ratio	2003	2002	2001	2000	1999
#1	Gross Premium to Surplus	693.0%	598.0%	495.0%	421.0%	368.0%
#2	Net Premium to Surplus	161.0	168.0	152.0	146.0	150.0
#3	Change in Net Writings	16.0	25.0	14.0	0.0	(5.0)
#4	Surplus Aid to Surplus	1.0	1.0	2.0	2.0	2.0
#5	Two-Year Overall Operating Ratio	83.0	92.0	97.0	104.0*	110.0*
#6	Investment Yield	4.8	6.2	6.7	6.3	6.2
#7	Change in Surplus	22.0	15.0	12.0	0.0	10.0
#8	Liabilities to Liquid Assets	62.0	65.0	76.0	71.0	68.0
#9	Agents' Balances to Surplus	5.0	5.0	33.0	23.0	14.0
#10	One-Year Reserve	0.0	3.0	(1.0)	(4.0)	2.0
#11	Development to Surplus					
#11	Two-Year Reserve Development to Surplus	5.0	3.0	(4.0)	1.0	6.0
#12	Estimated Current Reserve Deficiency to Surplus	15.0	21.0	(6.0)	(17.0)	2.0

Ratio No. 5 measures the company's profitability over the previous two-year period.

The 1999 and 2000 exceptions were due to unusually severe storms resulting in numerous claims in 1998 and in 2000 one catastrophic weather related event.

**Growth of SECURA Supreme Insurance Company
(In Thousands)**

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2003	\$45,350	\$29,316	\$16,034	\$ 2,561
2002	37,484	24,195	13,289	1,235
2001	33,015	21,222	11,793	(35)
2000	30,706	19,911	10,795	268
1999	28,725	18,142	10,583	(788)
1998	27,568	18,149	9,419	(1,282)

Year	Direct Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	\$85,294	\$25,838	\$23,776	55.8%	29.7%	85.5%
2002	57,083	22,365	20,275	63.2	29.1	92.3
2001	40,486	17,931	16,565	73.0	28.4	101.4
2000	29,687	15,772	15,552	75.5	26.9	102.4
1999	23,100	15,823	16,071	75.9	32.5	108.4
1998	21,396	16,674	15,858	79.1	33.3	112.4

The company's admitted assets increased 64.5% since the last examination.

Liabilities also increased 61.5% during this time frame. Surplus increased 70.2% since the last examination. The increase in surplus in 1999 was due to a capital contribution by the parent of \$1.8 million. This contribution was made so the company could become licensed in states which required a higher minimum surplus. The company suffered bad loss years in 1998 and 1999 due to severe storms. Net income varied from a loss in 1998 of (\$1.2) million to a profit of \$2.5 million in 2003.

Premiums have increased since the last examination. The company writes a combined homeowners/automobile/umbrella liability policy called Milestone which the parent does not write. The combined ratio has decreased from a high in 1998 of 112.4% to 85.5% in 2003.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Reinsurance Pooling Agreement—It is recommended that the company review and revise its affiliated reinsurance pooling agreement with SSIC, to ensure that the agreement makes full and complete expression of the pooling relationship between the parties and to make complete provision for the rights and obligations of each participating party to the pooling relationship.

Action—Compliance.

2. Accounts and Records—Affiliated Balances—It is recommended that the company allocate sufficient resources to address deficiencies in its intercompany accounting practices, and that the company establish satisfactory accounts and records for its accounting of affiliated party transactions, in conformity with the provisions of ch. 617.21 (1) (b), Wis. Stat.

Action—Compliance.

3. Advance Premium Liability—It is recommended that the company report advance premium liability as an element of unearned premiums or as a separately identified liability in its statutory financial statements, in conformity with the NAIC Annual Statement Instructions—Property and Casualty.

Action— Compliance.

4. Remittances and Items Not Allocated—It is recommended that the company report suspense and unidentified cash liability as a separately identified liability under the classification 'Remittances and Items Not Allocated' in its statutory financial statements, in conformity with the NAIC Annual Statement Instructions—Property and Casualty.

Action—Compliance.

Summary of Current Examination Results

The examination verified the financial condition of the company as reported in its annual statement. No examination adjustments, reclassifications, or recommendations are being made.

VIII. CONCLUSION

The company had no recommendations as a result of this examination. It was determined during the current examination that the company complied with the prior four recommendations. The company has shown growth in assets, liabilities, surplus and premiums. The combined ratio has steadily improved since the last examination. The company's exceptional IRIS ratios were due to unusually severe storms resulting in numerous claims in 1998 and in 2000 one catastrophic weather-related event.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations as determined by this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Andrew Fell	Examiner
Glen Navis	Examiner
Jean Suchomel	Examiner
Tim Vande Hey	Advanced Examiner
Randy Milquet	Advanced Examiner

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

During the examination the company stated they were investigating the possibility of dissolving two of the inactive shells within the holding company system in 2004. The two are SECURAL Capital, Inc., and Coordinated Insurance Services, LLC. The company notified this office prior to the report being issued that in fact they were being liquidated in November 2004.